



## **The Voice of Small Business**

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Testimony on House Tax Plan HB 4367

Testimony before the House Tax Policy Committee  
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My name is Charles Owens and I am the State Director for the National Federation of Independent Business, an organization providing legislative advocacy for more than 10,000 Michigan small businesses.

While we are not supporting the premise that a Single Business Tax replacement must be adopted, we are encouraged that Speaker Dillon and Chairman Steve Bieda have attempted to develop a plan with the goal of creating opportunity and equity for Michigan business. Understanding that it is likely a new business tax will be created, we are working to be certain that any plan put forward is equitable and fair to Michigan's small business owners and we are appreciative of efforts in that regard.

Small business will be a crucial partner in any economic recovery of our great state and we feel strongly that any proposed changes to our tax system should not impair the ability of this important partner to participate.

We find the following points to be positive in the proposed plan:

- It is not a gross receipts tax
- \$350,000 gross receipts exemption remains as it was in the SBT
- A "cliff" phase in from \$350,000 to \$700,000 in gross receipts is provided
- The Alternative Profits Tax credit is included as in the Single Business Tax
- Direct credits are provided against tax for payroll and assets for MI based businesses
- It would provide personal property tax relief
- It seeks to shift the tax burden out of state (\$800 million).
- There is no cap on tax liability as in other plans.

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We have worked with other small business trade groups in developing suggestions for the Committee to consider in improving the plan from a small business perspective and we have communicated those suggestions to the Committee Chair. We present them to the members of the committee as follows:

**Areas of concern and suggested improvements to the House Tax Plan MBT**

- **The alternative profits tax calculation in Section 47** (Page 56) is a valuable credit to small business that can resolve any unfavorable impacts of the plan across all industry segments, trades and professions. However, the three triggers or hoops that a business must jump through to qualify for the credit have not been adjusted for many years and are out of date. The result is that many small businesses no longer qualify for the credit. The criteria that disqualify most businesses are the owner income limitation that is currently set at \$95,000 and phases out the credit at \$115,000. We would recommend the following changes to this credit:

Trigger	Current Amount	Suggested Change
Owner Income	95,000 – 115,000	150,000 – 250,000
Adjusted Business Income	475,000	675,000
Gross Receipts	9,000,000 – 10,000,000	14,000,000 – 15,000,000

The gross receipts change could also be viewed as a compromise with the Senate Plan as the threshold for the tax option (Gross Receipts or Business Income) is set at \$15,000,000 in their plan.

- **Reinstate the SBT credit for Unincorporated Partnerships, LLCs and Subchapter S Corporations.** The MBT appears to retain the unique Michigan provision subjecting partnerships, S corps and unincorporated organizations to the business tax (similar to the imposition of the existing SBT to partnerships, etc., arguably a form of "double taxation"). Section 3(2) states that "business income" for a partnership or S corporation includes payments and items of income allocated to partners or shareholders. However, the bill also omits the existing SBT credit for S corporations and unincorporated business entities to alleviate some of the "double taxation."
- **The regulated industries credit** appears to have little impact against the high income rate for insurance and real estate agents, and financial securities brokers – advisers. That may have income too high to qualify for the Alternative Profits Tax. We would suggest a much higher credit rate beyond the .17% for these occupations.
- **Allow Michigan based insurance companies to use the compensation credit.** The insurance companies have many issues. However, consideration should be given to those that are based in Michigan and providing jobs by allowing them use of the compensation credit.

- **Contractors appear to be adversely impacted by this plan** relative to both the status quo and other plans. Michigan businesses building in Michigan using Michigan workers for Michigan Projects to the benefit of Michigan appear to be taxed as if they were the “out of state companies” that are the focus of the bill’s attempts to shift the tax burden. Some suggested remedies would be to let them include payments to subcontractors as compensation so that they can recapture those costs through that credit. Another option for homebuilders would be to exempt spec homes and raw land from the 18 mills education millage on property taxes, although this would not help other types of contractors.
- **The Apprenticeship Credit from the SBT should be reinstated in this plan.** It is pro-worker and pro education-vocation and it benefits union and non-union contractors.
- **Green Project – Home Credit.** A \$5,000 credit per project should be included for “green building” projects for contractors, both residential and commercial. Currently the cost differential on a “green built” home vs. conventional construction is \$5,000. To qualify, the project would have to be built to the “Green Built Michigan” standards. In commercial construction, it would be for a credit for greenbuild construction. Keep in mind that many new auto plants including the one in Delta Twp. have green build components. New York and Maryland offer green build credits for commercial or multi family residential projects. In addition to many in construction, energy conservation and environmental groups would support the credit.
- **Property management businesses** with high asset properties producing rental income, low or little liability, and low compensation see a large increase in this plan. Although the APT will help many smaller operations, consideration should be given to lessening the impact on this sector.
- **Reinstate \$100,000 Common Control Exclusion.** Although the unitary business group language is intended to capture activities by out of state companies, it also will adversely affect some Michigan small businesses. This is because in the SBT there was an exemption from entities under common control for businesses with less than \$100,000 in gross receipts. In other words, if a business had \$500,000 in gross receipts and another business with \$100,000 in gross receipts, they did not have to include the \$100,000 with the other in filing for the tax or determining their gross receipts for the threshold. (MCL 208.73, section 73, (5). This section should be included in the new plan.

I thank the committee for your consideration of these suggestions and your support for Michigan Small Business.